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C O N F I D E N T I A L SECTION 01 OF 02 ATHENS 000372

SIPDIS

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TAGS: ECON EAIR GR OLYAIR

SUBJECT: OLYMPIC AIRLINES PRIVATIZATION ENTERS NEW PHASE
(AGAIN)

REF: A. 2005 ATHENS 1372

B. 2005 ATHENS 2114

C. 2005 ATHENS 2470

D. 2005 ATHENS 2628

Classified By: Ambassador Charles Ries for reasons 1.4 (B) and (D)

¶1. (SBU) Summary: On February 2nd, Ambassador met with Deputy Minister of Finance Peter Doukas to discuss the latest GoG plans for privatizing the ailing national air carrier, Olympic Airlines (OA). Doukas stated clearly that he saw no way forward for last year's plan to sell the company to U.S. based Olympic Investors LLC in the face of EC Transport Commissioner Barrot's opposition to allowing OA to be sold without repaying improperly received state subsidies. As a result the GoG intends to seek investors to capitalize a new Greek-flagged airline by March, which will compete in an open auction this fall on the assets of OA and Olympic Airways Group. The proceeds of the liquidation will be offset against subsidy repayments due to the Greek government. Ambassador was assured that Olympic Investors would be invited to participate in the new start-up company. End Summary.

¶2. (U) On February 2nd, Ambassador met with Deputy Minister of Finance Peter Doukas to discuss the latest GoG plans for privatizing the ailing national air carrier, Olympic Airlines (OA). In August 2005, the U.S.-based investment consortium of Olympic Investors LLC and York Capital, signed an MOU with the GoG to purchase OA (reftel b). In October, however, the GoG announced that the sale terms established in the MOU were "unworkable" in light of EC opposition (the MOU and the tender offer anticipated the sale would be contingent on European Commission approval.) Subsequently the government began planning a new privatization plan.

Out with the Old

¶3. (U) When asked about the reasons for terminating the MOU with Olympic Investors, Doukas was straightforward; in September the EC had ruled that OA and Olympic Airways (the ground handling/catering group split off in 2002) were jointly and severally liable for the repayment of up to 650 million euro in illegal state subsidies granted between 2001 and 2003 (reftel c). According to Doukas, EC Transport Commissioner Barrot had been clear that this penalty would be enforced against both OA and Olympic Airways, and that the EC would under no circumstances approve the sale of OA as a non-inheritor of that debt until the state aid had been repaid to the GoG treasury.

¶4. (SBU) Doukas said that Barrot told Greek Minister of Transportation Liapis that the only way to avoid EC fines would be to totally liquidate OA, as well as associated companies in the Olympic Airways Group, in an open and transparent auction. The assets from the sale would be set against the repayment obligations, and any remaining obligations written-off with the dissolution of OA and Olympic Airways Group. Doukas noted that Barrot had focused in particular on the fact that the EC would not allow OA, the major revenue-earning part of Olympic Airways Group, to be sold without any portion of the subsidy repayment obligation being attached. Since the MOU with Olympic Investors was valued under the assumption that OA would not inherit any repayment debt, Barrot's position "doomed" the deal.

In With the New

¶5. (SBU) Doukas described the GoG's new plan as an attempt to satisfy Barrot and the EU while retaining a Greek-flagged national air carrier. In the new plan, the GoG is seeking to establish a start-up company with 150 to 200 million euro in equity. The opportunity to participate in the new airline would be by private offer only, involving select venture capitalists, existing foreign air carriers (note: Doukas mentioned the Emirates Airlines by name), and Greek ship owners. Doukas confirmed that Olympic Investors and York Capital would be given a chance to participate in this new venture. Doukas also confirmed that the GoG was anticipating buying between 30 and 50 million euro of shares in the company, but would settle for less if enough outside capital could be found (Note: Minister of Finance Alogoskoufis separately told Ambassador the GoG would be happy not to hold any equity if it all can be sold to private investors. End note.) Doukas noted that the less the GoG held of this new

company, the more satisfied the EC would be, but that in any case the GoG had no intention of assuming any management responsibilities.

16. (SBU) Doukas observed that OA was in dire straits, and would be lucky to have enough money to continue operations through the summer. His timetable is to have the new company established by March or April, therefore, and the liquidation of OA completed by the fall. When prodded by Ambassador, he confessed that not all the details were yet worked out. In particular he was not sure what would happen with OA's routes, or how OA competitor Aegean Airlines would be compensated with additional EU routes in order to be "less unhappy" with the creation of another Greek-flagged competitor airline.

17. (SBU) Ambassador also inquired how the GoG intended to handle the politically sensitive issue of Olympic Airways Group's 7700 state employees. Doukas acknowledged that it was going to be expensive, but that the State was obliged to either offer buy-outs or place the employees in other state-owned companies. He said that the price tag for this process was being negotiated with the EC so he couldn't discuss it, but that it would be "monstrous."

18. (C) Comment: It was clear that Doukas was prepared for this meeting, and unlike previous meetings (reftel d) with GoG officials, was prepared to explain the GoG motivations for canceling the MOU with Olympic Investors. It isn't clear that there exists 200 million euro in capital dying to invest in a start-up air carrier in Greece, but the GoG is working with Lazard and SABRE to create a business plan and find interested parties. If, as Doukas suggests, the new company will be buying OA assets (including valuable Heathrow slots) in a fair and transparent auction process in which anyone interested can participate, it would go a long way towards solving the GoG's problems with Brussels over the subsidization of OA. Brussels will have achieved the liquidation of Olympic Airways Group, and as long as the GoG isn't providing improper state aid, if investors want to try and make a go of a Greek-flagged airline, it will be a further step towards competition in European civil aviation.

19. (C) For its part, U.S. based Olympic Investors continues to maintain that the GoG has failed to honor the terms of the MOU, and that despite indications to the contrary, Brussels really would be ready to approve the deal as struck between the investors and the GoG last summer if only Greece would promote it effectively. We would welcome USEU's assessment on this point. End Comment.

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